

MORMON TRAIL COMMUNITY SCHOOL DISTRICT

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2005

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MORMON TRAIL COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education

(Before September 2004 Election)

Mary Jackson	President	2005
Bill Bailey	Board Member	2004
Pat Evans	Board Member	2005
Jan Lundahl	Board Member	2006
Gary Stripe*	Board Member	2004

Board of Education

(After September 2004 Election)

Mary Jackson	President	2005
Pat Evans	Board Member	2005
Jan Lundahl	Board Member	2006
Debbie Bremer	Board Member	2007
Randy Smith**	Board Member	2007

School Officials

Robert McCurdy	Superintendent	2005
Linda Lovett	District Secretary/Treasurer and Business Manager	2005

* Named to fill position due to resignation of Doug Thiel in June 2004.

** Named to fill position due to resignation of Bill Bailey in April 2005.

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Independent Auditor's Report

To the Board of Education of
Mormon Trail Community School District:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Mormon Trail Community School District, Humeston, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Mormon Trail Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated September 8, 2005 on my consideration of Mormon Trail Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 8 and 30 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Mormon Trail Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 8, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mormon Trail Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. I encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,558,686 in fiscal 2004 to \$2,722,051 in fiscal 2005, while General Fund expenditures decreased from \$2,639,158 in fiscal 2004 to \$2,638,600 in fiscal 2005. The District's General Fund balance increased from \$645,491 in fiscal 2004 to \$729,999 in fiscal 2005, a 13% increase.
- The increase in General Fund revenues was attributable to an increase in state foundation aid. General Fund expenditures were approximately the same for fiscal 2005 as fiscal 2004. Expenditures would have been higher if not for the reduction of administrative personnel and the related salary and benefits.
- An increase in interest rates during the past year resulted in interest earnings in the General Fund alone increasing from \$4,556 in fiscal 2004 to \$13,225 in fiscal 2005. This is still far less than the interest earned in 2001 of \$49,280.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Mormon Trail Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Mormon Trail Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Mormon Trail Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-1 below provides a summary of the District's net assets at June 30, 2005 compared to June 30, 2004.

Figure A-1
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Current and other assets	\$ 2,104	\$ 1,999	\$ 68	\$ 61	\$ 2,172	\$ 2,060	5.4%
Capital assets	2,186	2,273	44	54	2,230	2,327	-4.2%
Total assets	4,290	4,272	112	115	4,402	4,387	-.3%
Long-term liabilities	1,000	1,105	-	-	1,000	1,105	-9.5%
Other liabilities	1,099	1,288	2	4	1,101	1,292	-14.8%
Total liabilities	2,099	2,393	2	4	2,101	2,397	-12.3%
Net assets:							
Invested in capital assets, net of related debt	1,073	1,068	44	54	1,117	1,122	-.04%
Restricted	458	141	-	-	458	141	22.5%
Unrestricted	660	670	66	57	726	727	-.%
Total net assets	2,191	1,879	110	111	2,301	1,990	-15.6%

The District's combined net assets increased by nearly 16%, or approximately \$312,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$317,000 over the prior year. The increase was primarily a result of increased revenue in the Local Option Sales Tax and decreased expenditures in Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased approximately \$10,000.

Figure A-2 shows the change in net assets for the year ended June 30, 2005.

Figure A-2
Changes in Net Assets
(Expressed in Thousands)

	Governmental Activities	Business Type Activities	Total District
Revenues:			
Program revenues:			
Charges for service	\$ 181	\$ 49	\$ 230
Operating grants, contributions and restricted interest	427	86	513
Capital grants, contribution and restricted interest	-	-	-
General revenues:			
Property tax	997	-	997
Income surtax	91	-	91
Local option sales and service tax	153	-	153
Unrestricted intermediate grants	-	-	-
Unrestricted state grants	1,336	-	1,336
Unrestricted investment earnings	17	1	18
Other	8	-	8
Total revenues	<u>3,210</u>	<u>136</u>	<u>3,346</u>
Program expenses:			
Governmental activities			
Instruction	1,808	-	1,808
Support services	941	-	941
Non-instructional programs	1	137	138
Other expenses	148	-	148
Total expenses	<u>2,898</u>	<u>137</u>	<u>3,035</u>
Change in net assets	<u>312</u>	<u>(1)</u>	<u>311</u>

Property tax and unrestricted state grants account for 70% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 91% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,210,582 and expenses were \$2,898,497. The District was able to balance the budget because of increased State foundation aid and reduction of administrative personnel.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-3
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,808	\$ 1,379
Support services	941	857
Non-instructional programs	1	1
Other expenses	148	54
Totals	<u>2,898</u>	<u>2,291</u>

- The cost financed by users of the District's programs was \$180,619.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$427,193.

- The net cost of governmental activities was financed with \$1,242,170 in property and other taxes and \$1,335,980 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$136,354 and expenses were \$137,565. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2005, the District maintained meal prices. The District operated at approximately breakeven due primarily to the number of students qualifying for free and reduced priced meals.

INDIVIDUAL FUND ANALYSIS

As previously noted, Mormon Trail Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,118,037, above last year's ending fund balances of \$819,951. The primary reasons for the increase in combined fund balance is due to additional Local Option Sales Tax being collected and decreased expenditures in Physical Plant and Equipment Levy Fund.

Governmental Fund Highlights

- The District's General Fund financial position is the result of many factors. Increased state foundation aid during the year resulted in an increase in revenues. The reduction of administrative personnel and related salaries and benefits resulted in expenditures for 2005 being approximately the same as 2004.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$89,159 in fiscal 2004 to \$161,835 in fiscal 2005.
- The Capital Projects Fund balance increased from \$22,644 in fiscal 2004 to \$122,548 in fiscal 2005 due to a full year of collecting the SILO tax.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$111,212 at June 30, 2004 to \$110,001 at June 30, 2005. The District was able to maintain meal prices at the present level because of higher participation in the free and reduced price meal program.

BUDGETARY HIGHLIGHTS

The District's receipts were \$160,495 more than budgeted receipts, a variance of 5%. The most significant variance resulted from the District receiving more in SILO tax than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$2,230 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-4) This represents a net decrease of 4.2% from last year. More detailed information about the District's capital assets presented in Note 3 to the financial statements. Depreciation expense for the year was \$86,718.

The original cost of the District's capital assets was \$3.697 million. Governmental funds account for \$3.571 million, with the remainder of \$.126 million accounted for in the Proprietary, School Nutrition Fund.

Figure A-4
Capital Assets, net of Depreciation
(expressed in thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Land	\$ 16	\$ 16	\$ -	\$ -	\$ 16	\$ 16	-
Buildings	2,054	2,109	-	-	2,054	2,109	-2.6%
Furniture and equipment	116	148	44	54	160	202	21.0%
Totals	2,186	2,273	44	54	2,230	2,327	-4.2%

Long-Term Debt

At June 30, 2005, the District had \$1,105,000 in general obligation debt outstanding. This represents a decrease of approximately 8.3% from last year.

Figure A-5
Outstanding Long-Term Obligations
(expressed in thousands)

	Total District		Total Change
	June 30,		June 30,
	2005	2004	2004-2005
General obligation bonds	\$1,105,000	\$1,205,000	-8.3%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Wayne County has advised the District that due to revised valuations the District's total taxable valuation will remain approximately the same for property tax collected in fiscal 2006.
- The District has experienced declining enrollment for the past several years, but expects enrollment to stabilize for fiscal year 2006.
- The negotiated settlement with the Mormon Trail Education Teacher's Association for fiscal year 2006 exceeds the increase in state aid. The District will be required to use carryover fund balance to meet the obligation. Future staff reduction is anticipated to minimize the use of carryover funds.
- Fuel and energy costs have greatly increased since preparation of the fiscal year 2006 budget. The District will have to search every area for savings to offset these higher costs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Linda Lovett, District Secretary/Treasurer and Business Manager, Mormon Trail Community School District, Humeston, Iowa 50123.

Basic Financial Statements

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2005

	Governmental Activities	Business type Activities	Total
Assets			
Cash and cash equivalents	\$ 989,803	65,871	1,055,674
Receivables:			
Property tax:			
Delinquent	22,550	-	22,550
Succeeding year	875,079	-	875,079
Income tax succeeding year	96,600	-	96,600
Accounts	116,659	-	116,659
Due from other funds	3,570	-	3,570
Inventories	-	2,396	2,396
Capital assets, net of accumulated depreciation (note 3)	2,186,103	43,568	2,229,671
Total assets	4,290,364	111,835	4,402,199
Liabilities			
Excess of warrants over bank balance	1,225	-	1,225
Accounts payable	9,750	476	10,226
Salaries and benefits payable			-
Other liabilities		1,358	
Due to other funds	3,570		
Accrued interest payable	8,080	-	8,080
Deferred revenue:			
Succeeding year property tax	875,079	-	875,079
Succeeding year income surtax	96,600	-	96,600
Long-term liabilities (note 4):			
Portion due within one year:			
Bonds payable	105,000	-	105,000
Portion due after one year:			
Bonds payable	1,000,000	-	1,000,000
Total liabilities	2,099,304	1,834	2,101,138
Net assets			
Invested in capital assets, net of related debt	1,073,023	43,568	1,116,591
Restricted for:			
Management levy	(239)		(239)
Debt service	63,843		63,843
Physical plant and equipment levy	161,835	-	161,835
Other special revenue purposes	232,690	-	232,690
Unrestricted	659,908	66,433	726,341
Total net assets	\$ 2,191,060	110,001	2,301,061

See notes to financial statements.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

		Program Revenues	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 1,172,558	69,729	160,182
Special instruction	460,637	5,578	124,155
Other instruction	174,357	64,719	4,423
	<u>1,807,552</u>	<u>140,026</u>	<u>288,760</u>
Support Service:			
Student services	146,071	40,493	43,971
Instructional staff services	58,777	-	-
Administration services	280,664	-	-
Operating and maintenance of plant services	267,464	100	-
Transportation services	188,528	-	-
	<u>941,504</u>	<u>40,593</u>	<u>43,971</u>
Non-instructional programs	<u>653</u>	-	-
Other expenditures:			
Facilities acquisition	2,260	-	-
Long-term debt interest	52,066	-	-
AEA flowthrough	94,462	-	94,462
	<u>148,788</u>	-	<u>94,462</u>
Total governmental activities	2,898,497	180,619	427,193
Business type activities:			
Non-instructional programs:			
Nutrition services	137,565	49,038	86,498
	<u>137,565</u>	<u>49,038</u>	<u>86,498</u>
Total primary government	<u>\$ 3,036,062</u>	<u>229,657</u>	<u>513,691</u>

Net (Expense) Revenue and Changes in Net Assets			
Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business type Activities	Total
-	(942,647)	-	(942,647)
-	(330,904)	-	(330,904)
-	(105,215)	-	(105,215)
-	(1,378,766)	-	(1,378,766)
-	(61,607)	-	(61,607)
-	(58,777)	-	(58,777)
-	(280,664)	-	(280,664)
-	(267,364)	-	(267,364)
-	(188,528)	-	(188,528)
-	(856,940)	-	(856,940)
-	(653)	-	(653)
-	(2,260)	-	(2,260)
-	(52,066)	-	(52,066)
-	-	-	-
-	(54,326)	-	(54,326)
-	(2,290,685)	-	(2,290,685)
-	-	(2,029)	(2,029)
-	-	(2,029)	(2,029)
-	(2,290,685)	(2,029)	(2,292,714)

Continued from previous page

General Revenues:

Totals from pages 10 and 11	\$	3,036,062	229,657	513,691
Property tax levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted intermediate grants				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Insurance claims				
 Total general revenues				
 Change in net assets				
 Net assets beginning of year				
 Net assets end of year				

See notes to financial statements.

<u>-</u>	(2,290,685)	(2,029)	(2,292,714)
844,765	-	-	844,765
152,689	-	-	152,689
-	-	-	-
91,329	-	-	-
153,387	-	-	153,387
-	-	-	-
1,335,980	-	-	1,335,980
16,913	818	-	17,731
-	-	-	-
7,707	-	-	7,707
<u>2,602,770</u>	<u>818</u>	<u>2,603,588</u>	
312,085	(1,211)	310,874	
<u>1,878,975</u>	<u>111,212</u>	<u>1,990,187</u>	
<u>\$ 2,191,060</u>	<u>110,001</u>	<u>2,301,061</u>	

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Debt Service	Capital Projects
Assets and Other Debits			
Cash and pooled investments	\$ 677,143	56,951	51,929
Receivables:	-	-	-
Property tax:			
Current year delinquent	16,695	3,451	-
Succeeding year	756,321	-	-
Income tax succeeding year	96,600	-	-
Accounts	46,040	-	70,619
Due from other funds	-	3,441	-
Total assets and other debits	\$ 1,592,799	63,843	122,548
Liabilities and Fund Balances			
Liabilities:			
Excess of outstanding warrants over bank balance	\$ -	-	-
Accounts payable	9,750	-	-
Salaries and benefits payable	-	-	-
Due to other fund	129		
Deferred revenue:	-		
Succeeding year property tax	756,321	-	-
Succeeding year income surtax	96,600	-	-
Total liabilities	862,800	-	-
Fund balances:			
Reserved for:			
Debt service	-	63,843	-
Other	70,091	-	-
Unreserved:			
Undesignated	659,908	-	122,548
Total fund balances	729,999	63,843	122,548
Total liabilities and fund balances	\$ 1,592,799	63,843	122,548

See notes to financial statements.

Nonmajor Special Revenue	Total
203,780	989,803
2,404	22,550
118,758	875,079
-	96,600
-	116,659
129	3,570
325,071	2,104,261

1,225	1,225
-	9,750
-	-
3,441	3,570
-	-
118,758	875,079
-	96,600
123,424	986,224

-	63,843
-	70,091
201,647	984,103
201,647	1,118,037
325,071	2,104,261

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2005

Total fund balances of governmental funds (pg. 30)	\$ 1,118,037
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,186,103
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Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(8,080)
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Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,105,000)</u>
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Net assets of governmental activities (pg. 9)	<u><u>\$ 2,191,060</u></u>
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See notes to financial statements.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Debt Service	Capital Projects
Revenues:			
Local sources:			
Local tax	\$ 829,753	152,689	153,387
Tuition	50,896	-	-
Other	78,229	-	-
Intermediate	68,382	-	-
State sources	1,533,905	-	-
Federal sources	160,886	-	-
Total revenues	2,722,051	152,689	153,387
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,150,088	-	-
Special instruction	460,637	-	-
Other instruction	109,403	-	-
	1,720,128	-	-
Support services:			
Student services	146,071	-	-
Instructional staff services	58,777	-	-
Administration services	255,061	-	-
Operation and maintenance of plant services	188,568	-	-
Transportation services	174,880	-	-
	823,357	-	-
Non-instructional programs	653	-	-
Other expenditures:			
Facilities acquisition	-	-	-
Long-term debt:			
Principal	-	100,000	-

Interest and fiscal charges	-	52,783	-
AEA flowthrough	94,462	-	-
	94,462	152,783	-
Total expenditures	2,638,600	152,783	-
Excess (deficiency) of revenues over (under) expenditures	83,451	(94)	153,387
Other financing sources:			
Interfund transfer		53,483	(53,483)
Insurance claims	1,057	-	-
Total other financing sources	1,057	53,483	(53,483)
Net change in fund balances	84,508	53,389	99,904
Fund balances beginning of year	645,491	10,454	22,644
		-	
Fund balances end of year	\$ 729,999	63,843	122,548

See notes to financial statements.

Nonmajor Special Revenue	Total
106,341	1,242,170
-	50,896
68,407	146,636
-	68,382
-	1,533,905
-	160,886
174,748	3,202,875
-	1,150,088
-	460,637
64,954	174,357
64,954	1,785,082
-	146,071
-	58,777
25,603	280,664
23,698	212,266
4,598	179,478
53,899	877,256
-	653
2,260	2,260
-	100,000
-	52,783
-	94,462
2,260	249,505
121,113	2,912,496
53,635	290,379
6,650	7,707
6,650	7,707
60,285	298,086
141,362	819,951
201,647	1,118,037

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2005

Net change in fund balances - total governmental funds (pg. 18) \$ 298,086

***Amounts reported for governmental activities in the
statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	0	
Depreciation expense	<u>(86,718)</u>	(86,718)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.	100,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	717
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Change in net assets of governmental activities (pg. 13)	<u><u>\$ 312,085</u></u>
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See notes to financial statements.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2005

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 65,871
Inventories	2,396
Capital assets, net of accumulated depreciation	<u>43,568</u>
Total assets	<u>111,835</u>
Liabilities	
Accounts payable	476
Other liabilities	<u>1,358</u>
Total liabilities	<u>1,834</u>
Net Assets	
Invested in capital assets, net of related debt	43,568
Unrestricted	<u>66,433</u>
Total net assets	<u><u>\$ 110,001</u></u>

See notes to financial statements.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year ended June 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of meals	\$ 49,286
Cash payments to employees for services	(52,022)
Cash payments to suppliers for goods or services	(71,616)
Net cash used by operating activities	<u>(74,352)</u>
Cash flows from non-capital financing activities:	
State grants received	1,964
Federal grants received	78,710
Net cash provided by non-capital financing activities	<u>80,674</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>0</u>
Cash flows from investing activities:	
Interest on investments	<u>818</u>
Net increase in cash and cash equivalents	7,140
Cash and cash equivalents at beginning of year	<u>58,731</u>
Cash and cash equivalents at end of year	<u><u>\$ 65,871</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (88,527)
Adjustments to reconcile operating loss to	
net cash provided (used) by operating activities:	
Commodities used	5,824
Depreciation	10,492
Decrease in inventory	178
Decrease in salaries & benefits payable	(3,043)
Increase in other payables	724
Net cash used by operating activities	<u><u>\$ (74,352)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received federal commodities valued at \$5,824

See notes to financial statements.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

(1) Summary of Significant Accounting Policies

Mormon Trail Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Derby, Garden Grove, Humeston and LeRoy, Iowa, and the predominate agricultural territory in Wayne, Decatur, Lucas and Clarke Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Mormon Trail Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Mormon Trail Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Wayne County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvements of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the accrual basis.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 ½ % per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$5,000
Buildings	5,000
Improvement other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	5,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	20-50 years
Improvements other than buildings	20-40 years
Furniture and equipment	5-20 years

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable and income surtax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investments trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$561,015

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance beginning of year	Increases	Decreases	Balance end of year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 16,220	-	-	16,220
Total capital assets not being depreciated	16,220	-	-	16,220
Capital assets being depreciated:				
Buildings	2,770,260	-	-	2,770,260
Improvements other than buildings	-	-	-	-
Furniture and equipment	819,469	-	34,768	784,701
Total capital assets being depreciated	3,589,729	-	34,768	3,554,961
Less accumulated depreciation for:				
Buildings	661,545	55,198	-	716,743
Improvements other than buildings	-	-	-	-
Furniture and equipment	671,583	31,520	34,768	668,335
Total accumulated depreciation	1,333,128	86,718	34,768	1,385,078
Total capital assets being depreciated, net	2,256,601	(86,718)	-	2,169,883
Governmental activities capital assets, net	\$ 2,272,821	(86,718)	-	2,186,103
Business type activities:				
Furniture and equipment	\$ 125,900	-	-	125,900
Less accumulated depreciation	71,840	10,492	-	82,332
Business type activities capital assets, net	\$ 54,060	(10,492)	-	43,568

Depreciation expense was charged to the following functions:

Instruction:	
Regular	22,470
Support services:	
Operation and maintenance	55,198
Transportation	9,050
Total depreciation expense - governmental activities	\$ 86,718
Business type activities:	
Food service operations	\$ 10,492

(4) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$1,205,000	-	100,000	1,105,000	105,000

General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of June 1, 1996			
	Interest Rates	Principal	Interest	Total
2006	4.35%	\$ 105,000	\$ 48,483	153,483
2007	4.35%	110,000	43,915	153,915
2008	4.35%	115,000	39,130	154,130
2009	4.35%	120,000	34,127	154,127
2010	4.35%	120,000	28,908	148,908
2011	4.35%	130,000	23,688	153,688
2012	4.35%	130,000	18,032	148,032
2013	4.45%	135,000	12,378	147,378
2014	4.55%	140,000	6,370	146,370
Total		1,105,000	255,031	1,360,031

(5) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement Systems (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$128,718, \$133,175 and \$136,420, respectively, equal to the required contributions for each year.

(6) Risk Management

Mormon Trail Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$94,462 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash financial statements.

Required Supplementary Information

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN BALANCES - BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2005

	Governmental Funds Actual	Proprietary Fund Actual
Revenues:		
Local sources	\$ 1,439,702	49,856
Intermediate sources	68,382	-
State sources	1,533,905	1,964
Federal sources	160,886	84,534
Total revenues	<u>3,202,875</u>	<u>136,354</u>
Expenditures:		
Instruction	1,785,082	-
Support services	877,256	-
Non-instructional programs	653	137,565
Other expenditures	249,505	-
Total expenditures	<u>2,912,496</u>	<u>137,565</u>
Excess (deficiency) of revenues over (under) expenditures	290,379	(1,211)
Other financing sources	<u>7,707</u>	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	298,086	(1,211)
Balances beginning of year	<u>819,951</u>	<u>111,212</u>
Balances end of year	<u><u>\$ 1,118,037</u></u>	<u><u>110,001</u></u>

See accompanying independent auditor's report.

Total Actual	Budgeted Amount Original	Variance Favorable (Unfavorable)
1,489,558	1,357,635	131,923
68,382	50,000	18,382
1,535,869	1,574,284	(38,415)
245,420	196,815	48,605
3,339,229	3,178,734	160,495
1,785,082	2,381,982	596,900
877,256	1,038,788	161,532
138,218	175,000	36,782
249,505	447,357	197,852
3,050,061	4,043,127	993,066
289,168	(864,393)	
7,707	-	
296,875	(864,393)	
931,163	960,057	
1,228,038	95,664	

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
Year ended June 30, 2005

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis budget.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2005

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ -	40,051	163,729	203,780
Receivables:				
Property tax:				
Current year delinquent	857	-	1,547	2,404
Succeeding year	50,000	-	68,758	118,758
Due from other funds	129	-	-	129
Total assets	50,986	40,051	234,034	325,071
Liabilities and Fund Equity				
Liabilities:				
Excess of warrants over bank balance	1225			1,225
Accounts payable	-	-	-	-
Due to other funds	-	-	3,441	3,441
Deferred revenue:				
Succeeding year property tax	50,000	-	68,758	118,758
Total liabilities	51,225	-	72,199	123,424
Fund equity:				
Fund balances:				
Unreserved, undesignated fund balance	(239)	40,051	161,835	201,647
Total liabilities and fund equity	\$ 50,986	40,051	234,034	325,071

See accompanying independent auditor's report.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2005

	Management	Student Activity	Physical Plant and Equipment Levy
Revenues:			
Local sources:			
Local tax	\$ 37,924	-	68,417
Other	-	64,719	3,688
State sources	-	-	-
Federal sources	-	-	-
Total revenues	37,924	64,719	72,105
Expenditures:			
Current			
Instruction:			
Other instruction		64,954	-
Support services:			
Administrative support	25,603		-
Plant operation	19,879		3,819
Student transportation	4,598	-	
Other expenditures:			
Facilities acquisition	-	-	2,260
Total expenditures	50,080	64,954	6,079
Excess (deficiency) of revenues over (under) expenditures	(12,156)	(235)	66,026
Other financing sources:			
Insurance claims	-	-	6,650
Net change in fund balance	(12,156)	(235)	72,676
Fund balance beginning of year	11,917	40,286	89,159
Fund balance end of year	\$ (239)	40,051	161,835

See accompanying independent auditor's report.

Total	
106,341	
68,407	-
	-
174,748	

64,954
25,603
23,698
4,598
2,260
<hr/> 121,113 <hr/>
53,635

$$\begin{array}{r} 6,650 \\ 60,285 \\ 141,362 \\ \hline 201,647 \end{array}$$

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year ended June 30, 2005

Account	Balance Beginning Of Year	Revenues	Expenditures	Balance End of Year
Athletics	\$ 10,926	18,548	22,314	7,160
Activites Club	3,706	3,462	161	7,007
Drama/Play	2,003	1,538	1,161	2,380
National Honor Society	39	-	125	(86)
Cheerleaders	1,069	163	696	536
Flags	8	-	-	8
Bowling	50	-	-	50
FCCLA	701	9,677	10,145	233
FFA	690	-	208	482
Fundraisers	(390)	522	88	44
Athletic Resale	(253)	311	-	58
Band/Chorus	1,851	3,102	3,492	1,461
JR/SR Incentive	820	-	-	820
Student Council	1,823	1,352	1,246	1,929
JR/SR Student Awards	2,375	624	3,048	(49)
Elementary Student Council	1,386	-	711	675
Elementary Activities	22	7,694	5,810	1,906
Elementary Playground	3,160	-	-	3,160
Elementary Greenhouse	59	-	-	59
Krafty Kids	577	-	30	547
Hands at Work	40	-	40	-
Class of 2003	229	-	-	229
Class of 2004	259	14	-	273
Class of 2005	3,458	1,085	4,137	406
Class of 2006	4,217	7,865	6,105	5,977
Class of 2007	1,370	5,230	3,405	3,195
Class of 2008	91	3,493	2,032	1,552
Class of 2009	-	39	-	39
Totals	\$ 40,286	64,719	64,954	40,051

See accompanying independent auditor's report.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 1,242,170	1,151,258	1,189,214	1,017,701
Tuition	50,896	58,020	85,818	76,066
Other	146,636	137,231	128,204	128,842
Intermediate sources	68,382	92,639	62,147	72,355
State sources	1,533,905	1,332,111	1,280,173	1,376,567
Federal sources	160,886	152,784	151,981	84,733
Total	<u>\$ 3,202,875</u>	<u>2,924,043</u>	<u>2,897,537</u>	<u>2,756,264</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,150,088	1,138,634	1,110,084	1,149,570
Special instruction	460,637	401,718	383,664	357,681
Other instruction	174,357	234,833	220,908	259,211
Support services:				
Student services	146,071	134,518	132,075	134,218
Instructional staff services	58,777	71,798	83,543	39,527
Administration services	280,664	339,907	302,009	289,468
Operation and maintenance of plant services	212,266	254,451	176,355	188,983
Transportation services	179,478	167,915	160,288	189,115
Central support	-	-	32,982	27,975
Non-instructional programs	653	-	-	-
Other expenditures:				
Facilities acquisition	2,260	-	26,264	136,635
Long-term debt:				
Principal	100,000	85,000	80,000	70,000
Interest and other charges	52,783	74,724	80,192	85,090
AEA flowthrough	94,462	89,860	94,660	95,978
Total	<u>\$ 2,912,496</u>	<u>2,993,358</u>	<u>2,883,024</u>	<u>3,023,451</u>

See notes to financial statements.

Stephanie Mendenhall, CPA
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Humeston, Iowa 50123
641/877-6021

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
Mormon Trail Community School District:

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Mormon Trail Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated September 8, 2005. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Mormon Trail Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mormon Trail Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Mormon Trail Community School District and other parties to whom Mormon Trail Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of Mormon Trail Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

MORMON TRAIL COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation – I realize segregation of duties is difficult with a limited number of office employees. However, the District should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response accepted.

II-B-05 Purchase Orders – Purchase orders were not prepared for several purchases in the Student Activity Account.

Recommendation – Purchase orders should have been prepared for these purchases. Purchase orders help to insure that there is proper authorization for the purchase and that the price stated in the purchase order is what is reflected in the final invoice.

Response – We will monitor the use of purchase orders more closely in the future.

Conclusion – Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable since less than \$500,000 in federal awards.

Other Findings Related to Statutory Reporting:

IV-A-05 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget – Disbursements for the year ended June 30, 2005, did not exceed the budget.

IV-C-05 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-05 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-05 Business Transactions – No business transactions were noted between the District and District officials or employees.

IV-F-05 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-05 Board Minutes – I noted no transactions requiring Board approval which had not been approved by the Board.

IV-H-05 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

IV-I-05 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

IV-J-05 Certified Annual Report – The Certified Annual Report will be filed with the Iowa Department of Education timely and I noted no significant deficiencies in the amounts reported.

IV-K-05 Free and Reduced Price Meals – One family's application for free and reduced price meals was incorrectly designated as qualifying for free meals when it should have been reduced price meals.

Recommendation – Greater care needs to be taken in calculating whether applicants qualify for free and reduced price meals.

Response – We will review applications very closely and compare them to income guidelines.

Conclusion – Response accepted.

IV-L-05 Fund Deficit – The management fund has a deficit balance of \$239.

Recommendation – The District should investigate alternatives to eliminate this deficit.

Response – The deficit is a result of paying \$7,819 in unemployment claims on a former employee. We do not anticipate any unemployment claim during 2005-2006, hence the deficit will be eliminated.

Conclusion – Response accepted.